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RUEHHK/AMCONSUL HONG KONG 6057  
RUEHNH/AMCONSUL NAHA 0260  
RUEHOK/AMCONSUL OSAKA KOBE 1011  
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C O N F I D E N T I A L SECTION 01 OF 03 TOKYO 004662

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SUBJECT: MOFA SAYS ASEAN PLUS 3 FTA PROCESS ADVANCING

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Classified By: Ambassador J. Thomas Schieffer.  
Reason: 1.4 (b,d)

¶1. (C) Summary: The ASEAN Plus 3 Economic Ministers, when they meet next week in Kuala Lumpur, will likely recommend the creation of a formal intergovernmental study group as a prelude to actual free trade agreement (FTA) negotiations among the 13 ASEAN Plus 3 countries. According to an official of the Japanese Foreign Ministry, Japan's "ASEAN Plus 6" (ASEAN Plus 3, along with Australia, India, and New Zealand) idea will likely come up at a working lunch of the Economic Ministers of those sixteen countries on August 24, where the Japanese plan to propose the creation of an "academic study group" to examine that concept. The Foreign Ministry official, however, was not confident that a decision to pursue the idea would emerge from the August 24 lunch, but did indicate the possibility that an endorsement of the ASEAN Plus 6 proposal (for a study only) might emerge from the East Asian Summit meeting in December. End summary.

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ASEAN Plus 3 Econ Ministers To Recommend Next  
Step Toward FTA  
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¶2. (SBU) ECOUNS and Econoff met August 14 with Atsuyuki Oike, Director of the Economic Partnership Division of Japan's Ministry of Foreign Affairs (MOFA). Oike oversees all Japan's FTA and Economic Partnership Agreement (EPAs) negotiations and has been kept in the job for over two years already -- a relatively long time in MOFA terms -- because of his expertise. Oike will also be MOFA's representative on the delegation to the ASEAN Economic Ministers meeting in Kuala Lumpur the week of August 21. (Note: Economy, Trade and Industry Minister

Toshihiro Nikai will head the Japanese delegation. End note.)

13. (SBU) Oike said that the ASEAN Plus 3 Economic Ministers, based on the report of a multinational academic study group, will likely decide to recommend to their respective leaders the creation of a formal intergovernmental study group as the prelude to possible FTA negotiations among the 13 ASEAN Plus 3 countries. The actual establishment of the intergovernmental group, however, would need to be directed by the ASEAN Plus 3 leaders themselves who will meet during the annual ASEAN summit/East Asian Summit in December. The intergovernmental study would be expected to last about two years before substantive negotiations would begin.

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No Diplomatic Groundwork for Nikai Proposal  
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14. (C) Asked about Chief Cabinet Secretary Abe's apparent endorsement two weeks ago of the "ASEAN Plus 6" (ASEAN Plus 3, along with Australia, India, and New Zealand) idea, floated by Minister Nikai earlier this year, Oike said that Japan's policy was the same as explained at the U.S.-Japan sub-cabinet working group in June. Nonetheless, Nikai will likely raise it at a working lunch of the Economic Ministers of the sixteen "ASEAN Plus 6" countries on August 24, according to Oike. At that event, Japan plans to propose the creation of another academic study group, composed this time with participants from Australia, New Zealand, and India, to examine the question of wider participation in any regional

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FTA. However, Oike noted, no document or joint statement has been prepared for that meeting, nor has Japan raised this proposal directly with the other participating countries. Consequently, he was not confident that a decision to launch an academic study group on the ASEAN Plus 6 idea would emerge from the August 24 lunch. Oike did acknowledge the possibility that an endorsement of the proposal (for a study only) might come out of the EAS meeting in December. As of now, he thought India would enthusiastically support the idea, Australia would be a bit cautious, and New Zealand would fall somewhere in between.

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Japan Relatively Weak Entering Discussions, but,  
in the End, Indispensable  
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15. (C) Oike admitted that Japan could very easily become isolated in an intergovernmental study group on an ASEAN Plus 3 FTA because of its insistence on inclusion of provisions related to deregulation and investment. The Chinese and Koreans, he indicated, were in basic agreement on their model for advancing regional integration, i.e., moving step-by-step from trade liberalization focused on tariff reductions and gradually increasing the scope of liberalization. (He said the Chinese, though, were adamantly opposed to making commitments on "behind the border" issues like deregulation and investment.) Japan, however, lacked a similarly agreed basis for regional economic integration and was much more capable of achieving what it wanted on a bilateral basis rather than through inevitably complicated negotiations with ASEAN collectively

-- let alone ASEAN plus China and Korea -- Oike noted.

¶6. (C) Oike confessed that Japan's own discussions with ASEAN had not gone well because Japan wanted to have a more comprehensive package. That said, he believed Japan would have some leverage in the ASEAN Plus 3 discussion because, even though Japan might be isolated, it could not be easily excluded -- there is no "ASEAN Plus 2," and the ASEAN states, in particular, want Japan as a participant in any regional economic accord.

¶7. (C) Apart from the lack of a Japan-ASEAN agreement, the other critical link missing was any sort of economic agreement or understanding with China, Oike stressed. Although Japan's FTA negotiations with South Korea were suspended, a few rounds of discussions had, at least, taken place and a basis had been laid for further talks. No such foundation exists with China, however.

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Bilateral Talks Unlikely to Be Affected  
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¶8. (C) Oike indicated that the start of the ASEAN Plus 3 intergovernmental FTA study group would not affect Japan's ongoing bilateral FTA negotiations with ASEAN members. He expressed confidence that Japan would sign the long-negotiated agreement with the Philippines in the very near future, hopefully before Prime Minister Koizumi leaves office in September. (Oike added that the main sticking point with the Philippines, contrary to press reports, related to investment measures and not to the movement of workers.) In contrast, Japan has not been pushing to sign the agreement with Thailand, the

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text of which has been completed for several months, because it does not want the agreement to become an issue in Thai domestic politics during the current political uncertainty in that country. Oike also noted that the negotiations with Indonesia, in which he has participated personally, had been progressing well.

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U.S. Engagement Still Important  
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¶9. (SBU) The engagement of the United States in the process of East Asian economic integration remained important, according to Oike. He recognized that APEC continued to be the main institution through which the United States wished to exercise its influence. Oike added that Japan also valued APEC and would, in fact, be hosting APEC in the year 2010.

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Comment  
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¶10. (C) Oike was fairly frank regarding Japan's weak prospects at Kuala Lumpur of further slowing down the move toward an ASEAN Plus Three FTA. Nevertheless, we believe that his assessment of the interests, particularly among ASEAN members, of keeping Japan active in the process is also probably correct. Consequently, one key issue will be the extent to which the Japanese are

willing to bargain hard to secure their interests on deregulation and investment in the face of political pressures and practical impediments that would tend to push the process toward a "lowest common denominator" deal on trade in goods alone. Another issue is whether the "ASEAN plus 6" idea will get enough steam behind it to eclipse the ASEAN plus 3 project, especially if the latter falters.

SCHIEFFER